

EMMETSBURG MUNICIPAL UTILITIES
EMMETSBURG, IOWA
COMPONENT UNIT FINANCIAL STATEMENTS
JUNE 30, 2009

TABLE OF CONTENTS

	<u>Page</u>
Officials.....	1
Independent Auditors' Report.....	2
Management's Discussion and Analysis.....	4
Combining Statements:	
Combining Statement of Net Assets.....	10
Combining Statement of Revenues, Expenses, and Changes in Net Assets.....	12
Combining Statement of Cash Flows.....	13
Notes to the Financial Statements.....	15
Budgetary Comparison Schedule of Revenues, Expenses and Changes in Net Assets - Budget and Actual.....	20
Combining Schedule of Operating Expenses.....	21
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	23
Schedule of Findings and Questioned Costs.....	25

EMMETSBURG MUNICIPAL UTILITIES

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Paul Saxton	Board Member	Dec. 31, 2009
Dan Cooper	Board Member	Dec. 31, 2010
John Wright	Board Member	Dec. 31, 2011
Nick Steinkamp	Board Member	Dec. 31, 2012
Rick Brennan	Board Member	Dec. 31, 2013
John Bird	City Administrator/Superintendent	
John D. Brown	Attorney	

Burdorf, Parrott And Associates, P.C.

Certified Public Accountants

Edwin J. Burdorf, CPA
Patrick J. Parrott, CPA
www.bpacpa.com

3131 Main, P.O. Box 359
Emmetsburg, Iowa 50536
Phone: 712-852-3347
Fax: 712-852-3348

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Emmetsburg Municipal Utilities
Emmetsburg, Iowa

We have audited the accompanying combining statement of net assets of the Emmetsburg Municipal Utilities, a component unit of the City of Emmetsburg, Iowa, as of and for the year ended June 30, 2009, and the related combining statement of revenues, expenses and changes in net assets, and combining statement of cash flows. These component unit financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Capital assets policies do not conform to U.S. generally accepted accounting principles as described in Note 1D to the financial statements. The effect on the financial statements of the preceding practice is not reasonably determinable.

In our opinion, except for the effects, if any, of the matters discussed in the third paragraph, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Emmetsburg Municipal Utilities as of June 30, 2009 and the changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2009, on our consideration of the Emmetsburg Municipal Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 9 and page 20, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it

Our audit was conducted for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The combining schedule of operating expenses on page 21 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effects, if any, of the matters discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Burdorf, Parrott And Associates, P.C.

December 28, 2009

Management's Discussion and Analysis

Our discussion and analysis of the Emmetsburg Municipal Utilities financial performance provides an overview of the Utilities' financial activities for the year ended June 30, 2009. Please read it in conjunction with the Utilities' financial statements, which follow.

Financial Highlights

- The Utilities' net assets increased \$ 300,680 as a result of this year's operations. This represents a 2.5 % increase.
- The Utilities' return on total ending assets was 2.5 %.
- The Utilities' total revenues were \$3,869,100 in 2009 compared to \$4,520,228 in 2008.
- During the year ended June 30, 2009, the Utilities had total expenses, excluding depreciation, of \$3,034,660 compared to \$3,621,228 for the year ended June 30, 2008.

Using This Annual Report

This annual report consists of a series of financial statements. The Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Net Assets (on pages 10 and 12) provide information about the activities of the Utilities as a whole. Fund financial statements report the Utilities' operations in more detail than the government-wide statements by providing information about each of the Utilities' funds.

Reporting the Funds Maintained by the Utilities as a Whole

Our analysis of the funds maintained by the Utilities as a whole begins on page 5. One of the most important questions asked about the Utilities' finances is, "Is the Emmetsburg Municipal Utilities as a whole better off or worse off as a result of the year's activities?" The Combining Statement of Net Assets and Combining Statement of Revenues, Expenses and Changes in Net Assets report information about the Utilities as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Utilities' net assets and changes in them. You can think of the Utilities' net assets (the difference between assets and liabilities) as one way to measure the Utilities' financial health, or financial position. Over time, increases or decreases in the Utilities net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as the condition of the Utilities' infrastructure, to assess the overall health of the Utilities.

In the Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Net Assets, we show one kind of activity, a business-type activity.

Business-type activities show revenues earned, resources provided for, and expenses incurred for the provision of gas, water and sewer services to the City of Emmetsburg.

Reporting the Most Significant Funds Maintained by the Utilities

Fund Financial Statements

All the funds are major funds. The fund financial statements begin on page 10 and provide detailed information about the most significant funds-not the Utilities as a whole. The Utilities' funds use the following accounting approaches:

Proprietary funds - All of the Utilities' expenses incurred is for the cost of gas, water and sewer services reported in a proprietary fund. When the City charges customers for the services it provides, these services are reported in a proprietary fund. Proprietary funds are reported in the same way that all activities are reported in the Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Net Assets. In fact, the Utilities' enterprise funds are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows.

The Funds Maintained by the Utilities as a Whole

For the years ended June 30, 2009 and 2008, net assets changed as follows:

Summary of Operations and Changes in Net Assets

	2009	2008
Net operating revenues	\$ 3,814,742	4,413,380
Net operating expenses	<u>3,362,970</u>	<u>3,933,876</u>
Net operating income	451,772	479,504
Non-operating revenue (expenses)	(60,505)	(15,368)
Transfers to primary government	<u>(90,587)</u>	<u>(86,213)</u>
Net increase in net assets	<u>\$ 300,680</u>	<u>377,923</u>

Net Assets

	2009	2008
Assets:		
Current and other assets	\$ 5,618,169	5,329,024
Capital assets	<u>10,083,284</u>	<u>10,144,717</u>
Total assets	<u>\$ 15,701,453</u>	<u>15,473,741</u>
Liabilities:		
Current liabilities	\$ 626,250	482,218
Non-current liabilities	<u>3,064,000</u>	<u>3,281,000</u>
Total liabilities	3,690,250	3,763,218
Net assets:		
Invested in capital assets (net of debt)	6,802,284	6,699,717
Unreserved	<u>5,208,919</u>	<u>5,010,806</u>
Total liabilities and net assets	<u>\$ 15,701,453</u>	<u>15,473,741</u>

	Revenues	
	2009	2008
Operating:		
Residential	\$ 1,619,179	1,977,538
Commercial	1,254,389	1,498,607
Public authority	276,090	340,734
Customer fees	499,260	499,260
Interfund services provided	48,744	49,943
Penalties	11,518	5,850
Other	105,562	41,448
Total operating	3,814,742	4,413,380
Non-operating revenues:		
Interest income	54,358	106,848
Total revenues	\$ 3,869,100	4,520,228

For the funds maintained by the Utilities, total revenues for June 30, 2009 decreased by \$651,128 from total revenues for the year ended June 30, 2008. The decrease in revenue was primarily due to a decrease in natural gas billings.

	Expenses	
	2009	2008
Operating:		
Personal services	\$ 359,923	374,259
Contractual	283,241	373,237
Materials, supplies and maintenance	2,094,652	2,616,787
Utilities	113,613	97,847
Depreciation	443,173	434,864
Uncollected accounts	7,579	11,618
Interfund services used	60,789	25,264
Total operating	3,362,970	3,933,876
Non-operating expenses:		
Interest expense	114,863	122,216
Total expense	\$ 3,477,833	4,056,092

The total expenses decreased by \$578,259 from the prior year, due primarily to a \$567,782 decrease in the cost of natural gas purchased.

Capital Asset and Debt Administration

Capital Assets

	Balance July 1, 2008	Additions	Disposals	Balance June 30, 2009
Gas Department:				
Land	\$ 1,039	-	-	1,039
Structures & plant	333,319	3,216	-	336,535
Distribution system	1,154,092	-	-	1,154,092
Equipment, meters & mains	813,921	29,243	-	843,164
Total asset costs	2,302,371	32,459	-	2,334,830
Less accumulated depreciation	(1,543,475)	(56,178)	-	(1,599,653)
Gas Department assets, net	<u>\$ 758,896</u>	<u>(23,719)</u>	<u>-</u>	<u>735,177</u>
Water Department:				
Land	\$ 67,067	-	-	67,067
Structures & plant	3,942,440	-	-	3,942,440
Distribution system	1,927,171	67,615	-	1,994,786
Equipment, meters & mains	1,007,706	15,140	-	1,022,846
Total asset costs	6,944,384	82,755	-	7,027,139
Less accumulated depreciation	(2,002,030)	(208,993)	-	(2,211,023)
Water Department assets, net	<u>\$ 4,942,354</u>	<u>(126,238)</u>	<u>-</u>	<u>4,816,116</u>
Sanitation Department:				
Land	\$ 84,542	-	-	84,542
Structures & plant	4,348,889	3,216	-	4,352,105
Distribution system	1,450,687	199,415	-	1,650,102
Equipment, meters & mains	1,659,437	37,206	-	1,696,643
Total asset costs	7,543,555	239,837	-	7,783,392
Less accumulated depreciation	(3,100,088)	(178,002)	-	(3,278,090)
Construction in progress	-	26,689	-	26,689
Sanitation Department assets, net	<u>\$ 4,443,467</u>	<u>88,524</u>	<u>-</u>	<u>4,531,991</u>

Continued on the next page

	Balance July 1, 2007	Additions	Disposals	Balance June 30, 2008
Gas Department:				
Land	\$ 1,039	-	-	1,039
Structures & plant	333,319	-	-	333,319
Distribution system	1,154,092	-	-	1,154,092
Equipment, meters & mains	807,342	6,579	-	813,921
Total asset costs	2,295,792	6,579	-	2,302,371
Less accumulated depreciation	(1,490,782)	(52,693)	-	(1,543,475)
Gas Department assets, net	<u>\$ 805,010</u>	<u>(46,114)</u>	<u>-</u>	<u>758,896</u>
Water Department:				
Land	\$ 67,067	-	-	67,067
Structures & plant	3,942,440	-	-	3,942,440
Distribution system	1,908,888	18,283	-	1,927,171
Equipment, meters & mains	995,599	12,107	-	1,007,706
Total asset costs	6,913,994	30,390	-	6,944,384
Less accumulated depreciation	(1,794,957)	(207,073)	-	(2,002,030)
Water Department assets, net	<u>\$ 5,119,037</u>	<u>(176,683)</u>	<u>-</u>	<u>4,942,354</u>
Sanitation Department:				
Land	\$ 84,542	-	-	84,542
Structures & plant	4,348,889	-	-	4,348,889
Distribution system	1,430,372	20,315	-	1,450,687
Equipment, meters & mains	1,643,659	15,778	-	1,659,437
Total asset costs	7,507,462	36,093	-	7,543,555
Less accumulated depreciation	(2,924,989)	(175,099)	-	(3,100,088)
Sanitation Department assets, net	<u>\$ 4,582,473</u>	<u>(139,006)</u>	<u>-</u>	<u>4,443,467</u>

Depreciation expense for each department is found on page 12.

Debt

Debt decreased during the year ended June 30, 2009 by \$164,000. There was no new debt issued for the year ended June 30, 2009. The Water fund reduced its debt by \$ 109,000 and the Sanitation fund reduced its debt by \$55,000.

This Page Intentionally Left Blank

Economic Factors and Next Year's Budget and Rates

Several economic factors affected decisions made by the Utilities in setting its fiscal 2009 budget. Due to the Utilities' large concentration of residential customers, weather normally impacts revenue to a greater degree than do economic cycles. However, lately there have been large fluctuations in the natural gas market, which makes it difficult to budget gas costs and gas revenues. The Utilities' fiscal 2010 budget has decreased over fiscal 2009, due to the uncertainty of the natural gas market.

Contacting the Utilities Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utilities' finances and to show the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Administrator's Office at 2021 Main, Emmetsburg, Iowa.

John Bird

City Administrator/Superintendent

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Combining Statement of Net Assets
Business-Type Activities
June 30, 2009

	Gas Fund	Water Fund	Sanitation Fund	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 3,249,077	1,337,574	567,489	5,154,140
Accounts receivable	32,836	70,662	70,373	173,871
Current portion of notes receivable	7,895	-	-	7,895
Other receivables	231	-	-	231
Accrued billing	4,862	6,032	5,763	16,657
Accrued interest receivable	-	-	-	-
Interfund receivable	16,951	3,108	43,536	63,595
Due from primary government	2,102	628	628	3,358
Current portion of primary government - Urban Renewal Tax Increment Revenue Bond	1,107	1,291	1,291	3,689
Prepaid expenses	5,922	14,769	16,970	37,661
Total current assets	3,320,983	1,434,064	706,050	5,461,097
Noncurrent assets:				
Restricted assets - cash and cash equivalents	56,025	11,570	-	67,595
Notes receivable	25,000	-	-	25,000
Due from primary government - Urban Renewal Tax Increment Revenue Bond	9,107	10,625	10,625	30,357
Loan fees (net of \$6,380 amortization)	-	27,625	6,495	34,120
Total noncurrent assets	90,132	49,820	17,120	157,072
Capital assets:				
Land	1,039	67,067	84,542	152,648
Structures and plant	336,535	3,942,440	4,352,105	8,631,080
Distribution system	1,154,092	1,994,786	1,650,102	4,798,980
Equipment, meters and mains	843,164	1,022,846	1,696,643	3,562,653
	<u>2,334,830</u>	<u>7,027,139</u>	<u>7,783,392</u>	<u>17,145,361</u>
Less: Accumulated depreciation	(1,599,653)	(2,211,023)	(3,278,090)	(7,088,766)
	<u>735,177</u>	<u>4,816,116</u>	<u>4,505,302</u>	<u>10,056,595</u>
Construction in progress	-	-	26,689	26,689
Net capital assets	735,177	4,816,116	4,531,991	10,083,284
 Total assets	 \$ 4,146,292	 6,300,000	 5,255,161	 15,701,453

See notes to the financial statements.

	Gas Fund	Water Fund	Sanitation Fund	Total
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	\$ 31,547	17,600	25,338	74,485
Other liabilities payable	5,410	-	-	5,410
Current portion of long-term debt	-	112,000	105,000	217,000
Accrued vacation pay	3,065	3,712	2,820	9,597
Accrued interest payable	-	6,085	1,993	8,078
Interfund payable	3,108	51,473	9,014	63,595
Customer deposits	56,025	11,570	-	67,595
Due to Primary Government	46,234	75,394	58,862	180,490
Total current liabilities	<u>145,389</u>	<u>277,834</u>	<u>203,027</u>	<u>626,250</u>
Long-term debt (net of current portion above)	<u>-</u>	<u>2,322,000</u>	<u>742,000</u>	<u>3,064,000</u>
Total liabilities	<u>145,389</u>	<u>2,599,834</u>	<u>945,027</u>	<u>3,690,250</u>
Net Assets:				
Investment in capital assets (net of related debt)	735,177	2,382,116	3,684,991	6,802,284
Unrestricted	3,265,726	1,318,050	625,143	5,208,919
Total net assets	<u>4,000,903</u>	<u>3,700,166</u>	<u>4,310,134</u>	<u>12,011,203</u>
 Total liabilities and net assets	 <u>\$ 4,146,292</u>	 <u>6,300,000</u>	 <u>5,255,161</u>	 <u>15,701,453</u>

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Combining Statement of Revenues, Expenses
and Changes in Net Assets
Business-Type Activities
Year Ended June 30, 2009

	Gas Fund	Water Fund	Sanitation Fund	Total
Operating revenues:	\$			
Residential sales	1,121,381	248,490	249,308	1,619,179
Commercial sales	946,636	148,560	159,193	1,254,389
Public authority sales	235,462	23,108	17,520	276,090
Customer fees	138,600	171,660	189,000	499,260
Interfund services provided	47,344	1,401	-	48,744
Penalties	11,518	-	-	11,518
Other	77,037	14,603	13,922	105,562
Total operating revenues	2,577,978	607,822	628,942	3,814,742
Operating expenses:				
Personal services	122,471	122,042	115,410	359,923
Contractual	56,152	99,699	127,390	283,241
Materials, supplies and maintenance	1,926,197	98,337	70,118	2,094,652
Utilities	8,283	39,176	66,154	113,613
Depreciation	56,178	208,993	178,002	443,173
Uncollectible accounts	2,264	3,083	2,232	7,579
Interfund services used	20,263	20,263	20,263	60,789
Total operating expenses	2,191,808	591,593	579,569	3,362,970
Operating income	386,170	16,229	49,373	451,772
Non-operating revenues and (expenses):				
Interest income	31,839	15,974	6,545	54,358
Interest expense	(2,049)	(84,000)	(28,814)	(114,863)
Total non-operating revenues (expenses)	29,790	(68,026)	(22,269)	(60,505)
Income (loss) before transfers	415,960	(51,797)	27,104	391,267
Transfers to Primary Government	(78,587)	(6,000)	(6,000)	(90,587)
Change in net assets	337,373	(57,797)	21,104	300,680
Net assets at beginning of year	3,663,530	3,757,963	4,289,030	11,710,523
Net assets at end of year	\$ 4,000,903	3,700,166	4,310,134	12,011,203

See notes to the financial statements.

This Page Intentionally Left Blank

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Combining Statement of Cash Flows
Business-Type Activities
Year Ended June 30, 2009

	Gas Fund	Water Fund	Sanitation Fund	Total
Cash flows from operating activities:				
Cash received from customers	\$ 2,702,059	615,779	646,737	3,964,575
Cash payments to suppliers for goods and services	(2,038,107)	(252,175)	(277,313)	(2,567,595)
Cash payments to employees for services	(121,594)	(122,325)	(114,868)	(358,787)
Cash received for interfund services provided	47,344	1,401	-	48,745
Cash paid for interfund services used	(20,263)	(20,263)	(20,263)	(60,789)
Other income	77,037	14,603	13,922	105,562
Net cash provided by operating activities	646,476	237,020	248,215	1,131,711
Cash flows from noncapital financing activities:				
Cash from or to Primary Government funds	38,785	68,268	52,254	159,307
Cash from or for interfund transactions	(5,913)	5,464	450	1
Collection of loan receivable - Primary Government	1,064	1,241	1,241	3,546
Transfers from or to Primary Government funds	(78,587)	(6,000)	(6,000)	(90,587)
Net cash provided (used) by noncapital financing activities	(44,651)	68,973	47,945	72,267
Cash flows from capital and related financing activities:				
Loan payments	-	(109,000)	(55,000)	(164,000)
Interest paid	(2,049)	(82,636)	(28,853)	(113,538)
Acquisition and construction of capital assets	(32,459)	(82,755)	(266,526)	(381,740)
Net cash provided (used) for capital and related financing activities	(34,508)	(274,391)	(350,379)	(659,278)
Cash flows from investing activities:				
Interest on cash investments and notes receivable	32,054	16,472	6,578	55,104
Cash received from cashing certificates of deposit	349,750	290,000	50,000	689,750
Cash paid for notes receivable to others	(37,500)	-	-	(37,500)
Collection of notes receivable from others	4,605	-	-	4,605
Net cash provided (used) by investing activities	348,909	306,472	56,578	711,959
Net increase (decrease) in cash and cash equivalents	916,226	338,074	2,359	1,256,659
Cash and cash equivalents, beginning of year	2,388,876	1,011,070	565,130	3,965,076
Cash and cash equivalents, end of year	\$ 3,305,102	1,349,144	567,489	5,221,735
Reconciliation:				
Cash and cash equivalents				
Unrestricted and undesignated	\$ 3,249,077	1,337,574	567,489	5,154,140
Restricted	56,025	11,570	-	67,595
	\$ 3,305,102	1,349,144	567,489	5,221,735

See notes to the financial statements.

	<u>Gas Fund</u>	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 386,170	16,229	49,373	451,772
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	56,178	208,993	178,002	443,173
(Increase) decrease in operating assets:				
Accounts and other receivables	202,535	2,822	9,944	215,301
Accrued billing	50,879	24,721	24,005	99,605
Prepaid expenses	639	285	(3,974)	(3,050)
Increase (decrease) in operating liabilities				
Accounts payable	(46,803)	(15,248)	(9,677)	(71,728)
Other liabilities	(1,311)	-	-	(1,311)
Accrued vacation pay	877	(283)	542	1,136
Customer deposits	(2,688)	(499)	-	(3,187)
Net cash provided by operating activities	<u>\$ 646,476</u>	<u>237,020</u>	<u>248,215</u>	<u>1,131,711</u>

Emmetsburg Municipal Utilities

Component Unit of the City of Emmetsburg, Iowa

Notes to the Financial Statements

1. Summary of Significant Accounting Policies

Financial Reporting Entity

The Emmetsburg Municipal Utilities is the component unit of the City of Emmetsburg, Iowa. It consists of three funds, including the Gas department, the Water department and the Sanitation department. The Utilities do not purport to, and do not, present fairly the financial position of the City of Emmetsburg, Iowa as of June 30, 2009, and the changes in its financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting Policies

The Utilities apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Government Accounting Standards Board (GASB) pronouncements in which case, GASB prevails.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accounting policies of the Utilities conform to generally accepted accounting principles as applicable to governments except as noted below. The following is a summary of the significant policies:

A. Fund Accounting

The accounts of the Utilities are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in the report, under the Proprietary fund category.

Proprietary Funds

Proprietary funds are accounted for by using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining cost as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing, and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenues of enterprise funds are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

B. Cash and Cash Equivalents

All short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months. The Utilities maintains a cash and investment pool that is available for use by all funds. Certificates of deposit are separately held by each of the Utilities' funds. Deposits are stated at cost.

The carrying amount of the Utilities' deposits at June 30, 2009 was \$5,221,735 and the bank balance was \$5,203,211. The bank balance was covered by Federal Depository Insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Board and the treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and, certain joint investment trusts. The Utilities currently invests only in certificates of deposit.

C. Accounts and Notes Receivable

Trade accounts and notes receivable are reported at their estimated net realizable value. Collection losses have historically been immaterial, and the Utilities, based on its review of material balances outstanding, have elected no valuation allowance at June 30, 2009. The Utilities typically will write off any balance that remains after it has exhausted all reasonable collection efforts and concludes that additional collection efforts are not cost-justified.

D. Capital Assets and Long-Term Liabilities

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with Utilities activity are included on their Combining Statement of Net Assets. The Utilities' reported net assets are segregated into Investment in capital assets (net of related debt) and unrestricted.

No detailed depreciation schedule or continuing property record is maintained. Consequently, it is impossible to use generally accepted accounting principles for retirements or abandonment of capital assets. Salaries paid for plant investment have been expensed at the time of payment. Vehicle expense and overhead related to construction is not capitalized. Under generally accepted accounting principles, salaries, vehicle expenses and overhead should be capitalized.

Depreciation of all exhaustible capital assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on the proprietary fund Combining Statement of Net Assets. Depreciation has been provided over a range of estimated useful lives using the straight-line method as follows:

Structure and Plant	20 – 50 years
Distribution System	50 years
Equipment, Meters and Mains	3 – 50 years

Construction in progress, totaling \$26,689 at June 30, 2009, consisted of costs accumulated to date

for constructing improvements and extensions to the municipal sanitary sewer system. Project completion costs of \$1,410,000 will be financed by the subsequent issuance of Sewer Revenue Bonds and related Loan and Disbursement Agreements with the Iowa State Revolving Fund entered August 26, 2009 (\$990,000) and September 2, 2009 (\$420,000).

E. Designated funds

Designated funds include cash set aside by the Board of Trustees specifically designated for future capital improvements or other special future expenses, over which the board retains control and may at its discretion subsequently use for other purposes.

F. Pension and Retirement Benefits

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.10% of their annual covered salary and the Utilities is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by State statute. The Utilities contribution to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$19,544, \$19,174 and \$17,781, respectively, equal to the required contributions for the year.

G. Vacation and Sick Pay

Utility employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Vacation pay is recorded as an accrued liability when earned and sick pay is not recognized as an expense until paid.

2. Note Receivable

On October 15, 2008, the Utilities entered into a loan agreement with a local manufacturing business to loan the business \$37,500. The note is non-interest bearing and is receivable in monthly installments of \$658, with a maturity date of October 15, 2013. The principal balance receivable totaled \$32,895 at June 30, 2009.

3. Primary Governments - Urban Renewal Tax Increment Revenue Bond Receivable

The City of Emmetsburg issued the Emmetsburg Municipal Utilities a \$40,000 Urban Renewal Tax Increment Revenue Bond dated October 11, 2006. Principal on this Bond shall bear interest at the rate of 4% per annum. The Bond is due in 20 equal semi-annual installments of \$2,508 each December 1, and June 1 commencing December 1, 2007. The Bond matures on June 1, 2017. The principal balance receivable totaled \$34,046 at June 30, 2009.

4. Designated funds

The composition of Board designated funds included in cash and cash equivalents and certificates of deposits, at June 30, 2009 is as follows:

	<u>Gas</u>	<u>Water</u>	<u>Sanitation</u>
Capital Improvements and Replacement	\$ 978,754	770,329	358,862
Medical Reimbursement	39,733	4,138	4,137
Industrial Development	<u>300,870</u>	<u>298,082</u>	<u>52,701</u>
	<u>\$ 1,319,357</u>	<u>1,072,549</u>	<u>415,700</u>

5. Restricted Assets – Cash and Cash Equivalents

Restricted assets are comprised of cash in bank that can be used only to repay customer deposits.

6. Changes in Capital Assets

A summary of changes in capital assets follows:

	Balance			Balance
	<u>7/1/08</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/09</u>
Land	\$ 152,648	-	-	152,648
Structures & plant	8,624,648	6,432	-	8,631,080
Distribution system	4,531,950	267,030	-	4,798,980
Equipment, meters & mains	3,481,064	81,589	-	3,562,653
Construction in progress	-	26,689	-	26,689
Total	\$ <u>16,790,310</u>	<u>381,740</u>	<u>-</u>	<u>17,172,050</u>

7. Long-Term Debt

The Utilities entered into Loan and Disbursement Agreements with the State of Iowa and the Iowa Department of Natural Resources (the "Department"), as a means of financing the construction of certain water and sewer treatment facilities of the Utilities. As a means of enabling the State and the Department to comply with the "continuing disclosure" requirements set forth in Rule 15c2-12 of the Securities and Exchange Commission, the Utilities agrees, during the term of the loans, to provide the Department with certain reports and other information as required. Original loans are detailed as follows:

\$50,000, interest free, Interim Loan and Disbursement Agreement with the Iowa Finance Authority due April 12, 2010. At June 30, 2009, the loan balance totaled \$50,000.

\$2,750,000 Iowa State Revolving Loan Program Water Revenue Bond Series 2005 due in annual payments of \$102,000 – 179,000 (currently \$112,000) to June 1, 2026, and interest at 3.00%. At June 30, 2009, the loan balance totaled \$2,434,000.

\$600,000 Iowa State Revolving Loan Program Sewer Revenue Bond Series 2005 MC60R due in annual payments of \$20,000 – 40,000 (currently \$25,000) to June 1, 2025, and interest at 3.00%. At June 30, 2009, the loan balance totaled \$505,000.

\$202,000 Sludge Digestion Improvement series 1998B bonds due in annual payments of \$6,000 - \$15,000 (currently \$10,000) to June 1, 2018, and interest at 3.00%. At June 30, 2009, the loan balance totaled \$102,000.

\$358,000 Sewer Revenue Bonds Series 1998A due in annual payments of \$13,000 - \$25,000 (currently \$20,000) to June 1, 2018, and interest at 3.00%. At June 30, 2009, the loan balance totaled \$190,000. Annual estimated debt service requirements related to the loans are as follows:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 217,000	96,930	313,930
2011	170,000	91,920	261,920
2012	174,000	86,820	260,820
2013	177,000	81,600	258,600
2014	186,000	80,190	266,190
2015-2026	2,357,000	459,990	2,816,990
	<u>\$ 3,281,000</u>	<u>897,450</u>	<u>4,178,450</u>

8. Employee Benefits - Health Insurance (Partial Self-Insurance)

The Utilities have purchased a health insurance policy with a \$1,500 deductible per individual and a \$3,000 per family co-insurance clause. The Utilities then self-insures \$1,250 of the \$1,500 deductible.

9. Risk Management

The Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and, natural disasters. These risks are covered by the purchase of commercial insurance. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

10. Related Party Transactions

The Component Unit bills and collects for garbage and recycling services provided for the Primary Government to its residents. During the year ended June 30, 2009, the Component Unit billed \$ 371,477 in fees for the Primary Government.

11. Guaranteed loans

The Utilities has guaranteed 50% of a liability for the purchase of 58 acres of land by the Emmetsburg Community Development Corporation. The guarantee is for 50% of the \$685,000 direct and indirect loan from USDA and Iowa Trust and Savings Bank along with 50% of the interest on those loans. The balance of the loan at June 30, 2009 was \$629,481.

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Required Supplementary Information
Year Ended June 30, 2009

Budgetary Comparison Schedule of
Revenues, Expenses and Changes in Net Assets -
Budget and Actual

	Actual	Budgeted Amounts Original	Final to Actual Variance
Operating revenues	\$ 3,814,742	4,727,850	(913,108)
Operating expenses	3,362,970	4,094,784	(731,814)
Operating income	451,772	633,066	(181,294)
Non-operating revenues and (expenses)	(60,505)	-	(60,505)
Transfers to Primary Government	(90,587)	(72,587)	(18,000)
Net assets at beginning of year	11,710,523	11,710,523	
Net assets at end of year	\$ 12,011,203	12,271,002	

Notes To Required Supplementary Information - Budgetary Reporting

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. One of the nine functions included the business type activities. Function disbursements required to be budgeted include disbursements for the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

See Independent Auditors' Report.

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Combining Schedule of Operating Expenses
Year Ended June 30, 2009

	Gas Fund	Water Fund	Sanitation Fund	Total
Personal services:				
Trustee fees	\$ 1,525	1,525	1,525	4,575
Administrative salaries	37,052	37,412	35,206	109,670
Office salaries	17,524	17,524	17,524	52,572
Plant labor	45,047	43,550	40,798	129,395
Extra labor	2,478	2,478	2,478	7,434
Overtime	4,069	4,689	3,931	12,689
IPERS	6,626	6,667	6,251	19,544
Payroll taxes	8,150	8,197	7,697	24,044
Total personal services	122,471	122,042	115,410	359,923
Contractual:				
Advertising	2,948	2,205	1,966	7,119
Professional	6,664	35,901	59,721	102,286
Insurance	8,614	19,978	14,421	43,013
Health insurance and risk fund	17,876	32,190	30,986	81,052
Analytical testing and contract	-	5,408	18,826	24,234
Defense group expense	-	-	-	-
Regulatory commission	9,713	1,655	-	11,368
Conference and education	3,553	1,244	1,289	6,086
Regulation and compliance	366	1,118	181	1,665
Energy efficiency plan	5,670	-	-	5,670
Collection expense	748	-	-	748
Total contractual	56,152	99,699	127,390	283,241
Materials, supplies and maintenance:				
Cost of natural gas purchased	1,870,530	-	-	1,870,530
Maintenance supplies	2,329	2,876	8,275	13,480
Automotive supplies and expense	4,448	5,233	4,104	13,785
Other equipment supplies and expense	2,372	858	14,524	17,754
Computer maintenance and supplies	5,403	5,399	5,463	16,265
Chemicals	-	21,496	2,555	24,051
Maintenance and materials - mains	28,556	11,309	-	39,865
Treatment plant maintenance	-	4,739	-	4,739
Water well maintenance	-	9,120	-	9,120
Collection system maintenance	-	-	12,996	12,996
Lift station maintenance	-	-	7,419	7,419
Office supplies	7,498	7,275	7,005	21,778
Uniforms	741	1,154	905	2,800
Maintenance buildings and grounds	1,011	5,451	3,303	9,765
Miscellaneous	3,309	23,427	3,569	30,305
Total materials, supplies and maintenance	1,926,197	98,337	70,118	2,094,652

See Independent Auditors' Report.

	<u>Gas Fund</u>	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Utilities:				
Lift station power	\$ -	-	4,894	4,894
Telephone	4,181	4,652	5,185	14,018
Electric and Gas	4,102	34,524	56,075	94,701
Total utilities	<u>8,283</u>	<u>39,176</u>	<u>66,154</u>	<u>113,613</u>
Depreciation	<u>56,178</u>	<u>208,993</u>	<u>178,002</u>	<u>443,173</u>
Uncollectible accounts	<u>2,264</u>	<u>3,083</u>	<u>2,232</u>	<u>7,579</u>
Interfund services used:				
Administrative fees - Primary Government	20,263	20,263	20,263	60,789
Total interfund services used	<u>20,263</u>	<u>20,263</u>	<u>20,263</u>	<u>60,789</u>
Total operating expenses	<u>\$ 2,191,808</u>	<u>591,593</u>	<u>579,569</u>	<u>3,362,970</u>

Burdorf, Parrott And Associates, P.C.

Certified Public Accountants

Edwin J. Burdorf, CPA
Patrick J. Parrott, CPA
www.bpacpa.com

3131 Main, P.O. Box 359
Emmetsburg, Iowa 50536
Phone: 712-852-3347
Fax: 712-852-3348

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Emmetsburg Municipal Utilities
Emmetsburg, Iowa

We have audited the financial statements of the Emmetsburg Municipal Utilities, a component unit of the City of Emmetsburg, Iowa, as of and for the year ended June 30, 2009, and have issued our report thereon dated December 28, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Utilities' financial statements that is more than inconsequential will not be prevented or detected by the Utilities' internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the utilities' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the reportable condition described in item I-B-09, is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2009, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Utilities' responses, we did not audit the Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Emmetsburg, Iowa and other parties to whom the Emmetsburg Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Emmetsburg Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Burdorf, Parrott And Associates, P.C.

December 28, 2009

EMMETSBURG MUNICIPAL UTILITIES

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Part I: Findings Related to the Financial Statements

REPORTABLE CONDITIONS:

I-A-09 Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. Over the past years, the Utilities has implemented various procedures to enhance their internal controls. However, due to time and staffing constraints, the Utilities is still unable to fully segregate receipt and posting functions, disbursement preparation and posting functions and reconciliation function from receipt and disbursement functions.

Recommendation - We realize that the limited number of office employees makes segregation of duties difficult. However, we recommend that the Utility officials continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned - the Utility will continue to review operating procedures and segregate employee duties to the extent financially feasible to maximize internal control. There will be no change until it is fiscally responsible to add additional staff.

Conclusion - Response accepted.

I-B-09 Financial Reporting – A key element of financial reporting is the ability of management to select and apply the appropriate accounting principles to prepare financial statements in accordance with generally accepted accounting principles. For the year ended June 30, 2009, management did not have the expertise internally to analyze complex transactions to ensure that all transactions were properly recorded in the accounting records. As a result, certain material adjustments were required as part of the audit process.

The existence of significant deficiencies or material weaknesses may already be known to management and may represent a conscious decision by management or those charged with governance to accept that degree of risk because of cost or other consideration. We understand that preparing financial statements for a government of your size is normally not preformed by the government's personnel because the cost of training and keeping up with extremely difficult accounting principles is prohibitive. However, we are responsible to communicate significant deficiencies and material weaknesses in accordance with professional standards regardless of management's decisions.

Recommendation – Since the Utilities' have determined that it is not cost effective to have a trained governmental accountant on staff to prepare the financial statements, they should implement an education policy to assist management's ability to review, approve and accept responsibility for the financial statements. This education should be directed toward recording complex transactions.

Response – We are revising our education policy so that the individuals charged with the

accounting function will be able to attend continuing education related to understanding and recording complex transactions.

Conclusion – Response accepted.

Part II: Other Findings Related to Required Statutory Reporting

- II-A-09 Official Depositories - A resolution naming official depositories has been adopted by the Utilities. The maximum deposit amounts stated in the resolution were not exceeded during the year.
- II-B-09 Certified Budget - Expenditures during the year ended June 30, 2009 did not exceed the budget for the year.
- II-C-09 Questionable Expenditures – There were no questionable expenditures that fell outside its established policy on such costs.
- II-D-09 Travel Expense - No expenditures of Utilities' money for travel expenses of spouses of Utilities officials or employees were noted.
- II-E-09 Business Transactions - Business transactions between the Utilities and Utilities' officials or employees are as follows:

f

<u>Name, Title and Business Connection</u>	<u>Description of Transaction</u>	<u>Amount</u>
Paul Saxton, Trustee Saxton's Greenhouse	Purchase of plants, flowers, and mulch	\$166
Nick Steinkamp, Trustee K & W Electric, Inc.	Repairs	\$2,202

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Saxton's Greenhouse do not appear to represent a conflict of interest because it is not more than \$1,500. K & W Electric, Inc. does appear to represent a conflict of interest since it is more than \$1,500 and it was not bid.

- II-F-09 Bond Coverage - Surety bond coverage of City officials and employees including the Utilities is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- II-G-09 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-H-09 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.
- II-I-09 Revenue Bonds / Notes - The Utilities has complied with all requirements of the Loan and Disbursement agreements.